

Message Text

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ACTION EB-07

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SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: STATE 165596

1. PRESENTED BELOW IS THE NARRATIVE STATEMENT ON THE CLIMATE FOR DIRECT FOREIGN INVESTMENT. IT DIFFERS ONLY SLIGHTLY FROM LAST YEAR'S STATEMENT.

2. THE CLIMATE FOR U.S. INVESTMENT IN NICARAGUA IS EXCELLENT. GOVERNMENT REGULATIONS AND ADMINISTRATIVE PRACTICES REFLECT A PROINVESTMENT CONSENSUS AMONG POLITICAL LEADERS ANDNICARAGUAN BUSINESSME, AND THEY ARE DESIGNED TO PROVIDE SUCH GENERAL INCENTIVES AS INVESTMENT AND PROFIT-REPATRIATION GUARANTEES, AS WELL AS THE MORE SPECIFIC INCENTIVES CONTAINED IN THE CACM-WIDE FISCAL INCENTIVES CODE. NICARAGUA' NEED FOR THE CAPITAL, TECHNOLOGY, AND MANAGERIAL ABILITY INHERENT IN FOREIGN INVESTMENT IS WIDELY RECOGNIZED.

3. THIS POSITIVE ATTITUDE, COMBINED WITH GENERALLY PRO-AMERICAN SENTIMENTSS, GIVES NICARAGUA AN UNUSUALLY FRIENDLY INVESTMENT CLIMATE. TODAY, MORE THAN EVER, THE GOVERNMENT ENCOURAGES FOREIGN INVESTMENT, AND LOCAL ENTREPRENEURS ACTIVELY SEEK JOINT-VENTURE ARRANGEMENTS.

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4. THE CENTRAL AMERICAN AGREEMENT ON FISCAL INCENTIVES TO INDUSTRIAL DEVELOPMENT GRANTS EXEMPTIONS FROM CUSTOMS AND OTHER DUTIES, AND FROM INCOME, PROFITS, AND OTHER TAXES ON A SLIDING SCALE, DEPENDING UPON THE CLASSIFICATION AWARDED THE INDUSTRY BY THE MINISTRY OF ECONOMY.. MOST ATTRACTIVE BENEFITS ARE AWARDED TO THOSE INVESTMENTS WHICH HAVE THE GREATEST VALUE ADDED MAKE THE GREATEST USE OF NATIONAL RAW MATERIALS, AND MAKE THE GREATEST USE OF HUMAN RESOURCES.

5. SPECIAL LAWS HAVE BEEN PASSED TO PROMOTE NVESTMENTS IN SPECIFIC INDUSTRIES AS WELL. EXTRA FISCAL INCENTIVES HAVE BEEN PROVIDED FOR INVESTMENTS IN THE NEW MANAGUA AIRPORT FREE TRADE ZONE DESIGNED TO ATTRACT DRAWBACK INDUSTRIES, AND INVESTMENTS RELATED TO THE TOURIST INDUSTRY ARE ALSO BENEFITTED BY SPECIAL INCENTIVES.

6. PERHAPS MORE ATTRACTIVE EVEN THAN FISCAL INCENTIVES IN THE ABSENCE OF REGULATIONS ON LOCAL PROCURMENT OF RAW MATERIALS, LOCAL EMPLOYMENT, EXPORT GOALS, ANTITRUST LAWS, SCREENING OF TAKEOVER PROPOSALS, LOCAL IMPUT CONTENT, AND FOREIGN OWNERSHIP. THE GOVERNMENT AND THE BUSINESS COMMUNITY ARE ENTIRELY COMMITTED TO ALLOWING THE PRIVATE SECTOR FREEDOM OF ACTION, AND FOREIGN FIRMS, JUST LIKE NATIONAL FIRMS, ARE CONFRONTED WITH VERY FEW REGULATIONS OF ANY KIND. ALL OPIC PROGRAMS ARE AVAILABLE. END STATEMENT.

7. POST HAS BEEN UNABLE TO OBTAIN RELIABLE FIGURES ON FOREIGN INVESTMENT IN NICARAGUA. ALL FOREIGN INVESTMENT COMING INTO NICARAGUA IS SUPPOSED TO BE REGISTERED WITH THE CENTRAL BANK. HOWEVER, IN REALITY NOT ALL INCOMING CAPITAL IS ACTUALLY REGISTERED, AND EVEN FIGURES ON REGISTERED INVESTMENTS DURING PAST YEARS GIVE NO INDICATION OF THE PRESENT BOOK VALUE OF FOREIGN INVESTMENTS SINCE CAPITAL OUTFLOWS AND DEPRECIATION ARE NOT RECORDED.

8. THE CENTRAL BANK IS UNDERTAKING A SURVEY TO DETERMINE THE ACTUAL PRESENT VALUE OF FOREIGN INVESTMENT IN NICARAGUA, AND THE RESULUTS SHOULD BE AVAILABLE IN TWO OR THREE MONTHS. WE WILL PASS ON THE FIGURES AS SOON AS THEY BECOME KNOWN. FOR THE TIME BEING, THE GENERAL CONSENSUS IS THAT THE VALUE UNCLASSIFIED

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OF INVESTMENT IN NICARAGUA IS AROUND US\$100 MILLION, WITH ABOUT THREE-FOURTHS OF THAT TOTAL OWNED BY U.S. FIRMS AND INDIVIDUALS. OTHER COUNTRIES WITH SIGNIFICANT INVESTMENTS IN NICARAGUA ARE JAPAN, GREAT BRITAIN, CANADA, THE NETHERLANDS, AND SWITZERLAND.

9. DIRECT INVESTMENT IN THE U.S. BY NICARAGUANS IS PROBABLY SEVERAL MILLION DOLLARS. BUT SINCE SUCH INVESTMENT IS IN LARGE PART

UNDER TAKEN BY A FEW WEALTHY PRIVATE INDIVIDUALS WHO UNDER NO CIRCUMSTANCES WILL DISCLOSE THEIR FINANCIAL DEALING , FIGURES ARE SIMPLY NOT AVAILABLE.

10. LAST YEAR'S REPORT INCLUDED SOME SPECIFIC FIGURES ON FOREIGN INVESTMENT IN NICARAGUA. HOWEVER, THE COMMERCIAL SECTION FEELS THAT THESE FIGURES ARE SO UNRELIABLE SO AS TO BE MEANINGLESS. IT WOULD BE PREFERABLE TO AWAIT THE RESULTS OF THE CENTRAL BANK'S SURVEY BEFORE PUBLISHING (POSSIBLE MISLEADING) SPECIFIC FIGURES.

DRAFTED BY : HFVANDENBERG.

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